

**Division of Treasury
Bureau of Funds Management
Policies and Procedures**

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**INVESTMENT POLICY
FLORIDA STATE TREASURY
INTERNAL BRIDGE PORTFOLIO**

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PURPOSE:

The Internal Bridge Portfolio will be the first buffer between the internally managed Liquidity Portfolio and the externally managed Intermediate Core Portfolio and Convertible Fixed Income Programs. Funds invested in the Internal Bridge Portfolio will be the first to be converted to cash in the event that the Treasury's Internal Liquidity Portfolio drops below levels deemed necessary to meet the State's disbursement needs.

I. Investment Goals

- A. Liquidity - The allocation of funds to this portfolio will be no more than \$3 billion in face value which will be comprised of funds not needed to meet the liquidity needs of the State.
- B. Safety - This portfolio sets preservation of capital as the highest priority. The funds will be administered in a manner in which trading will minimize any realized principal loss.
- C. Yield - Yield maximization methods to be utilized are:
 - 1. Asset Allocation
 - 2. Trading strategies

II. Strategies – Asset Allocation

A. Investment Vehicles

- 1. Direct United States Treasury Obligations
 - No limit per issue
- 2. U.S. Government Agencies
 - U.S. Government Agencies includes Federal Farm Credit Banks, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association and any Agency obligation fully backed and guaranteed by the United States.
 - No limit per issue
- 3. Corporate Obligations (long-term maturities)
 - Rated by a least two nationally recognized rating services in any one of the four highest classifications or any one of the two highest classifications if rated only by one nationally recognized rating service
 - Portfolio should hold no more than 10% in BBB rated securities
 - No more than \$25 million per issuer.- This limitation does not apply to bonds issued by Citizens Property Insurance Corporation.
- 4. Commercial Paper
 - \$25 million per issuer
 - Issuers rated A1/P1 have a maximum 30 days maturity
 - Issuers rated A1+/P1 have no maturity restriction
 - Issued by any corporation domiciled in the United States
 - Issuer restriction will not be combined with Internal Liquidity Portfolio

5. Repurchase Agreements

- No limit per issuer
- Counterparties have to be rated A2 or better for overnight transactions and A1 or better for transactions longer than overnight but less than a year
- Collateral will be marked to market daily and will allow shortages of \$5,000 for any collateral above \$1,000,000 market value
- Acceptable collateral

	<i>Treasury and Agency Obligations</i>	<i>Mortgage Backed Agency Obligations</i>	<i>Other Permitted Securities under F.S.17.57</i>
7 days or less	101% of market value	None	None
8 to 30 days	102% of market value	105% of market value	105% of market value
Over 30 days	105% of market value	108% of market value	108% of market value

6. Other Investments Permitted by State Statutes

- No more than \$320 million per issuer

C. Sector Allocation

<i>Sectors</i>	<i>Target Ranges</i>	
	<i>Minimum</i>	<i>Maximum</i>
U.S. Treasury Obligations	40%	60%
U.S. Government Agency Obligations	10%	40%
Corporate Obligations	10%	30%
Other Eligible Investments	0%	10%

B. Maximum Maturities

1. The average duration will not exceed five (5) years

III. **Trading Strategies**

- Market Opportunities – Opportunities periodically occur as spreads between different types of securities widen or narrow causing specific securities or types of securities to become unusually cheap or rich. The Treasury will monitor the markets and take advantage of relative spreads to add or swap a position that will enhance the portfolio. Depending on the market and economic forecast, these opportunities may result in additional yield or prepare the portfolio for a defensive position.
- Yield Curve – The “normal” yield curve rewards longer term investments. Trading decisions will be based upon the relative reward for lengthening/shortening maturities. The Treasury will also look to capture capital gains that arise as a result of “rolling down the yield curve,” taking advantage of greater demand for shorter maturities.
- Laddered Maturities - The Treasury will purchase securities of varying maturities. Some purchases will be made in the secondary market, while others will be made during the auction period (U.S. T-Notes) or prior to issuance (U.S. agencies and corporates).

IV. Evaluation

The investment performance of the Internal Bridge Portfolio will be evaluated annually to the Merrill Lynch 1-3 Government/Corporate with A or better rating on a total return basis.

APPROVED BY: _____

DATE APPROVED: _____

**INVESTMENT POLICY
FLORIDA STATE TREASURY
INTERNAL LIQUIDITY PORTFOLIO**

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Purpose

A sufficient level of liquidity will be maintained in short-term investment instruments to meet the highest expected disbursement needs plus an extra amount to meet unusual and unexpected situations.

Investment Goals

- A. Liquidity – The allocation of funds to this portfolio will not fall below \$300 million in face value of which at least \$100 million must be in U S Treasury Bills maturing within a 180-day period. If the portfolio falls below the floor, the Internal Bridge Portfolio will begin liquidating to fund cash needs.
- B. Safety - This portfolio sets preservation of capital as the highest priority. The funds will be administered in a manner in which trading will minimize any realized principal loss.
- C. Yield – Yield maximization methods to be utilized are:
1. Asset allocation
 2. Trading strategies

Strategies – Asset Allocation

A. Investment Vehicles and Restrictions

1. Repurchase agreements
 - No limit per issuer
 - Counterparties have to be rated A2 or better for overnight transactions and A1 or better for transactions longer than overnight but less than a year
 - Collateral will be marked to market daily and will allow shortages of \$5,000 for any collateral above \$1,000,000 market value
 - Acceptable collateral

	<i>Treasury and Agency Obligations</i>	<i>Mortgage Backed Agency Obligations</i>	<i>Other Permitted Securities under F.S.17.57</i>
7 days or less	101% of market value	None	None
8 to 30 days	102% of market value	105% of market value	105% of market value
Over 30 days	105% of market value	108% of market value	108% of market value

2. Commercial Paper

- \$50 million per issuer
- \$100 million per issuer from the acceptable credit list approved by the Investment Committee with a maximum 30 days maturity
- Issuers rated A1/P1 have a maximum 30 days maturity
- Issuers rated A1+/P1 have no maturity restriction
- Issued by any corporation domiciled in the United States
- Issuer restriction will not be combined with Bridge portfolio

3. No-Load commingled or money market funds
 - \$200 million per fund
 - Regulated by the Securities and Exchange Commission
4. U.S. Treasury Obligations
 - No limit per issue
5. U.S. Government Agencies
 - U.S. Government Agencies includes Federal Farm Credit Banks, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association and any Agency obligation fully backed and guaranteed by the United States.
 - No limit per issue
6. Corporate Obligations or Corporate Master Notes (long-term maturities)
 - Rated by at least two nationally recognized rating services in any one of the four highest classifications or any one of the two highest classifications if rated only by one nationally recognized rating service
 - Portfolio should hold not more than 10% in BBB rated securities
 - No more than \$25 million per issuer. This limitation does not apply to bonds issued by Citizens Property Insurance Corporation.
7. Bankers Acceptances
 - No limit per issue
 - Issued by a commercial bank with deposits of not less than \$400 million, and licensed by a state or Federal Government, and whose senior debt issues is rated in one of the two highest rating by a nationally recognized rating service.
 - Must be held in custody by a domestic bank that is a member of the Federal Reserve System.
8. Asset Backed Securities
 - \$100,000,000 per pool limit
 - Must be the highest rating by one nationally recognized rating service
9. Other Eligible Investments
 - No more than \$10 million per issuer

B. Maximum Maturities

1. 5-year maximum maturity per individual securities

Trading Strategies

- A. Cash Flow Matching – The maturities of liquidity investments will be matched to major disbursement requirements when known in advance.
 - B. Market Opportunities – Opportunities periodically occur as spreads between different types of securities widen or narrow causing specific securities or types of securities to become unusually cheap or rich. The Treasury will monitor the markets and take advantage of relative spreads to add or swap a position that will enhance the portfolio. Depending on the market and economic forecast, these opportunities may result in additional yield or prepare the portfolio for a defensive position.
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- C. Yield Curve – The “normal” yield curve rewards longer-term investments. Trading decisions will be based upon the relative reward for lengthening/shortening maturities. The Treasury

will also look to capture capital gains that arise as a result of "rolling down the yield curve," taking advantage of greater demand for shorter maturities.

- D. Laddered Maturities – The Treasury will purchase securities of varying maturities. Some purchases will be made in the secondary market, while others will be made during the auction period (U.S. T-Notes) or prior to issuance (U.S. agencies and corporate).

Evaluation

The investment performance of the Internal Liquidity Portfolio will be evaluated annually by comparing investment yield with the average yields on 3-month Treasury bills.

APPROVED BY: _____

DATE APPROVED: _____

INVESTMENT POLICY FLORIDA STATE TREASURY EXTERNAL MANAGER PROGRAM

PURPOSE

The purpose of this statement is to communicate a clear understanding of the Florida Treasury's investment philosophy, goals and objectives as well as the policies it seeks to achieve these objectives with respect to the External Manager Program.

OVERVIEW

The responsibilities of the Florida Treasury include the investment of idle cash balances in interest earning assets to reduce the burden on taxpayers. The liabilities of the State are generally short term in nature and cash flows are such that a sizable portion of the assets held in Treasury are not likely to be needed for liquidity purposes. The operating expenses of the State have been fairly constant and predictable and Treasury has been able to consistently meet disbursement obligations through its internal liquidity fund. Recognizing this, the Treasury implemented the External Manager Program in 1990, as a means of investing these surplus funds to realize the higher incremental returns earned for investing in longer term fixed income securities. The amount of funds invested in the program has grown dramatically over the years as earnings have been reinvested and the State's growth has resulted in higher tax receipts.

The Treasury's Investment Committee is responsible for the general oversight of the External Manager Program and makes recommendations to the Chief Financial Officer on all major decisions affecting the program. The committee consists of the Director of Treasury, the Chief of the Bureau of Funds Management, the Financial Administrator of Internal Investments, and the Financial Administrator of the External Manager Program. The Financial Administrator of the External Manager Program is responsible for the daily administration and oversight of the program and reports all significant events to the committee.

PHILOSOPHY

The external investment advisors managing funds on behalf of the Chief Financial Officer will use the care, skill, prudence, and diligence under the circumstances prevailing, that a prudent investor would use in managing the portfolio under similar circumstances. The portfolio must be structured to meet the primary objective of enhancing long-term capital value. Preservation of capital shall be a secondary concern. On occasion, managers may be instructed to minimize realized losses. The external investment managers in the program shall use active and passive management techniques, in accordance with their specific mandates, and must make all investments in compliance with Florida Statutes and established investment guidelines.

OBJECTIVE

The objective of the External Manager Program is to maximize the total rate of return (net of fees) earned on investments in permissible securities, given the constraints and risk tolerance provided below.

CONSTRAINTS

The Treasury is granted investment authority in Section 17.57, Florida Statutes. This law specifically identifies the types of instruments deemed permissible for investment and is restricted to fixed income securities and convertible bonds. The funds invested in the External Manager Program are not needed to meet the liquidity needs of the State. This creates a long-term investment horizon and increases Treasury's ability to assume investment risk, defined herein as volatility of investment returns. While Treasury is able to invest its surplus operating funds with a long-term focus, a severe recession, State-wide emergency or other unforeseen event could create a demand for such funds and require the liquidation of the investments in the program.

Weighing these constraints against the long-term nature of the program, Treasury can still afford to tolerate substantially greater risk than a typical state liquidity program. In fact, independent investment consultants have reviewed the Treasury investment structure and deemed it more conservative than necessary. As such, Treasury seeks to maximize the total rate of return earned on the funds in the program while investing in permissible securities. Total rate of return includes income and realized gains or losses earned on investments plus any changes in the market value of such investments. A total rate of return objective is the appropriate investment objective given the stability and projected long term nature of the program.

The law also allows the Chief Financial Officer the discretion to invest up to 3% of the total funds under management in securities not listed in Section 17.57, Florida Statutes. Therefore, Treasury may seek to invest up to 3% of its funds in assets with low correlations to traditional fixed income securities. These investments may provide higher rates of return commensurate with the expected level of volatility of such returns. Theoretically, low correlation of investment returns between asset classes will provide more stable portfolio returns over time, thereby reducing overall portfolio volatility while potentially providing higher portfolio returns.

SELECTION OF INVESTMENT MANAGERS

Investment managers will be hired by the Treasury based on one or more of the following factors: historic investment performance, professional staff, employee ownership of firm, size of firm, research capabilities, area of specialization, strategic fit with overall program goals and objectives, and fee structure. The Chief Financial Officer may also grant opportunities to small and minority-owned investment management firms to enhance their growth and development.

PERFORMANCE EVALUATION

Investment manager performance will be evaluated and compared to other existing managers, an established benchmark, and a universe of managers with similar mandates. On a semi-annual basis, all managers who fail to exceed the benchmark return net of fees for the trailing 1-year and 3-year periods, may be subject to the following: termination; a reduction of funds under management; a reduction of investment management fees; or other action as deemed appropriate by the Chief Financial Officer. The best performing managers over trailing 1-year and 3-year periods will be rewarded with additional funds, subject to availability, with the top performing firms being rewarded first.

Treasury will use discretion and consider relevant circumstances and market conditions in making all funding decisions. Investment managers may also be subject to termination for failure to meet overall program goals, objectives and record-keeping procedures. Changes in key investment personnel will also be monitored by Treasury. The overall program will be evaluated based on the total performance of investment managers in each asset class compared to a blended composite benchmark.

CUSTODIAN

The Treasury will utilize a central custodian to act as a clearinghouse, provide accounting reports, perform compliance reviews, perform securities lending functions and provide consulting services. The consulting and securities lending services may be provided internally or through a third-party acceptable to the Treasury. The consultant shall perform quarterly reports evaluating individual managers and the total program, and otherwise assist in the review and hiring of managers and the overall administration of the program. The contract for custodial services, consulting and securities lending shall be awarded through the Request for Proposal (RFP) process.

APPROVED BY: _____

DATE APPROVED: _____

**INVESTMENT POLICY
FLORIDA STATE TREASURY
CONVERTIBLE BOND PORTFOLIO**

Investment Objective

The return objective for externally managed convertible bond portfolios is to exceed the total return (net of fees) achieved by the CS First Boston Investment Grade Convertible Bonds Only Index.

Investment Strategy

Strategy will focus on investments in convertible debt obligations rather than conventional fixed-income instruments in order to take advantage of higher total returns historically achieved by such securities. The Florida Treasury will hire convertible fixed-income portfolio managers to actively manage funds. A minimum allocation to convertibles shall be equal to 70% of the portfolio's total market value.

Permitted Securities

- I. Allowable securities per section 17.57(2), Florida Statutes.
 - A. All securities purchased will be consistent with the guidelines established by section 17.57(2), Florida Statutes (copy attached) and the limitations established by Treasury staff in the Investment Portfolio Guidelines. Only securities, which are specifically listed as authorized, may be purchased.
- II. Investment Portfolio Guidelines
 - A. U.S. Government and Agency Bonds
 1. As permitted by Florida Statutes.
 - B. Corporate Securities
 1. Section 17.57(2), Florida Statutes, permits the use of corporate obligations or corporate master notes of any corporation within the United States if the long-term obligations are rated by at least two nationally recognized rating services in any of the four highest classifications (BBB-/Baa3 or greater). If an obligation is rated by only one nationally recognized rating service, then the obligation must be rated in the two highest classifications (AA-/Aa3 or greater).

2. Corporation within the United States means that the entity issuing the debt must be incorporated within the United States.
3. Section 17.57(2), Florida Statutes, permits the use of foreign bonds denominated in United States dollars and registered with the Securities and Exchange Commission for sale in the United States, if the long-term obligations are rated by at least two nationally recognized rating services in any of the four highest classifications (BBB-/Baa3 or greater). If an obligation is rated by only one nationally recognized rating service, then the obligation must be rated in the two highest classifications (AA-/Aa3 or greater).
4. Nationally recognized rating agency shall mean the following: Standard & Poor's, Moody's and Fitch.
5. The securities of a corporate issuer shall not comprise more than five percent of the account's market value. However, securities of any one corporate issuer that are exchangeable for securities of another issuer shall not exceed ten percent of the account's market value.
6. U.S. dollar denominated convertible debt obligations registered with the Securities and Exchange Commission for sale in the United States are eligible if the convertible debt issue is rated by at least two nationally recognized rating services in any of the four highest classifications (BBB-/Baa3 or greater). If an obligation is rated by only one nationally recognized rating service then the obligation must be rated in the two highest classifications (AA-/Aa3 or greater).
7. Equity securities are not permitted, except when it is in the best interest of Treasury to have a security convert to the underlying equity issue prior to liquidation. In such cases, the manager must liquidate the equity position within a reasonable period. This includes securities known as preferred stock.
8. Commercial paper or other money market securities issued by any corporation domiciled within the U.S. shall be rated in the highest classification (A1/P1) by at least one nationally recognized rating agency.

C. Asset-Backed Securities

1. Asset-Backed Securities are defined as obligations of U.S. issuers backed by the monthly cash payments associated with consumer and business receivables. Managers may purchase asset-backed securities rated in the highest rating classification (AAA-/Aaa3) by at least one nationally recognized rating agency.

D. Options

1. Managers may purchase put and call options on any security which is permitted in the portfolio. Futures, options on futures, swaps and other derivative contracts are not permitted.
2. Options may also be written if they are fully covered. Call options are considered covered if the manager owns the underlying security. Put options are considered covered if cash equivalent assets in an amount equal to the exercise cost are maintained in a segregated account.
3. The aggregate value of each manager's option positions shall not exceed 5% of the portfolio's value. The aggregate value of securities underlying written options shall not exceed 35% of the portfolio's value.

E. Basket Clause

1. Section 17.57(2)(v), Florida Statutes, permits the use of securities not otherwise authorized by section 17.57, Florida Statutes, if such securities are approved for Treasury use by the Chief Financial Officer. Not more than 3% of the funds under the control of the Chief Financial Officer shall be invested in securities approved for use under the "Basket Clause".
2. The following securities have been approved for purchase under the Basket Clause:
 - a) Yankee Certificates of Deposits (Yankee CDs) -- Negotiable interest-bearing time deposits in U.S. branches of major foreign banks.
 - b) Euro-dollar Certificates of Deposits (Euro CDs) -- Negotiable interest-bearing U.S. dollar denominated time deposits in foreign branches of U.S. banks and in foreign banks located offshore.
 - c) U.S. dollar denominated Canada Bills-- Unsecured promissory notes denominated in U.S. dollars. These are unconditional obligations of Canada rated AAA/Aaa.

- d) Bank Notes -- Senior, unsecured promissory notes issued in the United States on either an underwritten or continuously offered basis by domestic commercial banks.
- 3. The total market value of securities purchased by managers under the basket clause shall not comprise more than three percent of the account.
- 4. Managers shall notify Treasury staff and the Program's trustee in advance of purchasing securities that are approved under the basket clause.

Portfolio Leverage

Portfolio leverage shall be limited to 10% of the unleveraged portfolio market value, unless otherwise approved by the Chief Financial Officer. Portfolio leverage will be defined as increasing investment risk by creating liabilities that cannot be funded by cash or cash equivalents currently held in the portfolio.

Securities Lending

Securities lending will be performed for the Chief Financial Officer's externally managed portfolios under an approved securities lending agreement. Net lending income will be added to the portfolio manager's account from which securities were loaned.

Manager Reviews

Managers will be evaluated semiannually as a means of monitoring their contribution toward achieving the Program's objectives. The semiannual evaluations will include reviews of performance, portfolio characteristics, investment strategies, and manager's ability to meet monthly reporting time frames. Treasury staff will also conduct monthly and quarterly reviews to determine manager compliance with the investment portfolio guidelines.

Investment Policy Review

This policy will be reviewed annually to evaluate the continued appropriateness of its stated objectives and guidelines. Changes will be made in response to the Treasury's liquidity needs, investment authority (section 17.57(2), Florida Statutes) and operational conditions.

APPROVED BY: _____

DATE APPROVED: _____

**GENERAL INVESTMENT POLICY
FLORIDA STATE TREASURY**

Attachment # 2
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PURPOSE

The purpose of this investment policy is to define responsibilities, to clarify investment goals, to establish strategies to achieve stated goals and to set out methods of evaluation and control of investment operations.

SCOPE

This policy will establish general operating format. Procedures to implement policy will be separately documented.

STATUTORY AUTHORITY

The Chief Financial Officer's investment authority derives from Section 17.57, Florida Statutes (Attachment 1). Deposits made in banks and savings and loan associations must be made with qualified public depositories in accordance with Chapter 280, Florida Statutes (Attachment 2). The investment of trust funds by the Chief Financial Officer is authorized by Section 17.61, Florida Statutes (Attachment 3).

ORGANIZATION STRUCTURE

The organizational structure for Treasury investments is related to the provisions of Section 17.57, Florida Statutes, in that the Treasury deposits and invests funds under policies approved by the Chief Financial Officer. It is necessary, therefore, for the Treasury to present major decisions related to Treasury investments to the Chief Financial Officer for review and approval.

Once a policy is approved, the Treasury is authorized to plan investment strategy and to organize Treasury operations to meet statutory policy requirements. Responsibility for deposit and investment operations is maintained by the monitoring of investment operations and strategy by the Director of the Treasury and the Chief Financial Officer.

The investment strategies necessary to implement statutory and policy requirements are developed by the Treasury Investment Committee. This committee consists of the Director of the Division of Treasury, the Chief of the Bureau of Funds Management, the Financial Administrator for Internal Investments and the Financial Administrator for External Investments. Approval of strategies recommended by the Treasury Investment Committee will be made by the Chief Financial Officer or his designee.

Investment operations are performed by staff members of the Bureau of Funds Management. Operating procedures are developed by the Chief of the Bureau of Funds Management, the Financial Administrator for Internal Investments, or the Financial Administrator for External Investments and must be approved by the Treasury Investment Committee. All placements of funds must be in accordance with Florida Statutes and with adopted policies and procedures. Placements of funds may be made only by the Investment Staff, the Financial Administrator in charge of internal investments, the Chief of the Bureau of Funds Management or the Director of the Division of Treasury.

Accounting records for investments will be audited by employees in the accounting section of the Bureau of Funds Management. No funds placements will be made by these individuals.

INVESTMENT GOALS

A. Meeting Statutory Requirements

Money which is not required to meet the liquidity needs of the State must be offered to the qualified public depositories of the State if they are willing to pay rates established by the State Treasury. These rates must be at least as high as rates available in U.S. Treasury securities.

In order to meet the intent of the Legislature regarding the deposit of funds in Florida banks and savings and loan associations, the Treasury shall place deposits with banks and savings and loan associations in the State under a policy approved by the Chief Financial Officer. Publicity about the deposit program shall be provided to all qualified public depositories in Florida.

B. Liquidity

The Division of Treasury must be in a position to meet all payment orders issued by the Division of Accounting and Auditing. Because of the large dollar volume of disbursements from the Treasury, preservation of capital is set at the highest priority. While it is essential to invest all funds available for investment, it is equally essential to provide for expected disbursement demands and allow a cushion of liquidity in cases of greater than expected outflows.

C. Safety

The investment of funds by the Chief Financial Officer must be performed with the clear understanding that safety of principal is more important than return on investment. The citizens of Florida appreciate the non-tax revenue provided by investment earnings, but would not appreciate an investment policy so oriented toward return that excessive risk is incurred.

Investment risk may be in the forms of default risk, market risk or operating risk. Default risk is controlled by purchasing securities issued by entities of high credit quality. Market risk is controlled by maintaining a sufficient level of liquidity so that there will never be a necessity of selling yield instruments at a dollar loss. Operating risk is controlled by strict adherence to sound operating procedures.

D. Yield

Given all of the above constraints, it is still important to achieve the maximum portfolio yield possible. The methods commonly employed to maximize yield are:

1. Portfolio allocation
2. Trading strategies

3. Securities Lending Program

E. Allocation

The allocation of Treasury funds will be implemented based on the following principles:

1. Funds will be placed in certificates of deposit at Qualified Public Depositories to meet the requirements of section 17.57 (2), Florida Statutes.
2. Liquidity will be maintained in the Internal Liquidity Portfolio at a level to meet expected outflows plus a cushion to prevent forced sales of securities.
3. The Internal Bridge Portfolio will provide back up liquidity and higher returns than the Internal Liquidity Portfolio and will maintain a balance of up to \$3,000,000,000.
4. The External Intermediate Core and Convertible Bond Portfolios will provide higher returns than the Internal Portfolios with some price volatility and no liquidity. Allocations will be made to this program after the first three requirements are met.
5. Exposure to BBB/Baa rated securities is limited to 10% of the total market value of the Treasury portfolio.

F. Trading Strategies

The Treasury may employ both passive and active trading strategies in its investment portfolios. Passive trading strategies include buy and hold and indexing. Active trading strategies include the following:

1. Interest rate expectations strategies;
2. Yield Curve strategies;
3. Yield spread strategies;
4. Security selection strategies;

G. Securities Lending Program

Treasury will utilize securities lending programs, administered by external vendors, to enhance yield in all applicable portfolios. Any security held in an investment portfolio may be loaned to securities dealers and/or banks. These loans must be collateralized by cash or U.S. Government securities having a market value of at least 102% of the securities loaned at the origination of the loan. Thereafter, loans must be at least 100% collateralized.

APPROVED BY: _____

DATE APPROVED: _____

**FLORIDA STATE TREASURY
SECURITY LENDING
INVESTMENT GUIDELINES**

I. PERMISSIBLE INVESTMENTS

A. Instruments:

1. The cash collateral investment account ("Fund") is permitted to purchase the following types of securities:

Bank Notes	Floating Rate Certificates of Deposit
Banker's Acceptances	Master Notes
Canadian T-Bills	Repurchase Agreements
Certificates of Deposit	U.S. Government Securities
Commercial Paper (CP),	including obligations of the
Corporate Notes	U.S. Treasury and obligations of
Corporate Bonds	U.S. Government Agencies or
Floating Rate Notes	Instrumentalities

2. In addition, for purposes of these guidelines, shares of a money market mutual fund registered with the Securities and Exchange Commission as an investment company under the Investment Company Act of 1940, as amended (the "1940 Act"), that invests exclusively in Government Securities or repurchase agreements in respect of such securities:

- a). shall be an Eligible Security
- b). shall not be subject to any limitation under the Concentration Guidelines in paragraph III,
- c). shall be deemed to have a Final Maturity of one day for purposes of the Maturity Guidelines in paragraph IV
- d). shall be deemed to meet the applicable Quality Guidelines in Paragraph VI

B. Currency: U.S. dollar denominated only

C. Limitation on foreign issuers:

Only securities issued or guaranteed by a corporation or other entity organized under the laws of a State of the United States, and only securities of the type referred to in the first clause of Section 3(a)(2) of the Securities Act of 1933, as amended may be purchased.

II. PROHIBITED INVESTMENTS

- A. Unless specifically authorized in writing by Treasury, only those securities as detailed in Paragraph I(A) may be purchased, and then only to the concentration limits imposed by Paragraph III.
- B. Any security of the contractor or its affiliates

III. CONCENTRATION GUIDELINES

- A. No more than 10% of the Fund's total assets, measured only at the time of purchase, may be invested in the securities of a single issuer (other than obligations of the U.S. Treasury, as to which there is no limitation).
- B. No more than 25% of the Fund's total assets may be invested in repurchase agreements with any one counter party.
- C. No more than 3% of the Fund's total assets (the "3% limit"), measured continuously, may be invested in the following types of securities:
 - 1. Yankee Certificates of Deposit, meaning negotiable interest-bearing time deposits of U.S. branches of foreign banks.
 - 2. Euro-dollar Certificates of Deposit, meaning negotiable interest-bearing U.S. dollar denominated time deposits in foreign branches of U.S. banks and in foreign banks located offshore.
 - 3. Canadian Bills, meaning unsecured promissory notes that are unconditional obligations of Canada and rated Aaa by Moody's and AAA by S&P.
 - 4. Bank Notes, meaning senior, unsecured promissory notes issued in the U.S. by domestic commercial banks.
- D. If the 3% limit is exceeded, the lender shall seek to restore compliance as soon as is practicable, consistent with orderly portfolio management.

IV. MATURITY GUIDELINES

- A. Securities must have a Final Maturity at the time of purchase that does not exceed two years.

1. If an instrument is subject to an Unconditional Put or Unconditional Demand Feature, its Final Maturity will be the earlier of the date noted on the face of the instrument as the date on which the principal amount must be paid or the date on which the principal amount of the instrument can be recovered through demand and,
 2. if the maturity of a Floating Rate Instrument is determined by reference to an Unconditional Put or Unconditional Demand Feature, the period remaining between readjustment of the interest rate must not exceed the period specified in paragraph IV.(A)(1) .
- B. Repurchase agreements may not have a maximum remaining maturity exceeding 90 days.
- C. The Fund's maximum weighted average days to maturity may not exceed 120 days.

V. REPURCHASE AGREEMENTS (including term repurchase agreements)

1. Permitted collateral: Government Securities
- 2.. Minimum margin levels: 102%

VI. QUALITY GUIDELINES

Specified Rating Categories:

- A. All securities, other than Government Securities and corporate bonds and notes must be rated by at least two of Moody's, S&P, Fitch Investors Service ("Fitch") and Thomson BankWatch ("BankWatch"), at least P-1 by Moody's, A-1 by S&P, F-1 by Fitch, or TBW1 by BankWatch.
- B. Corporate bonds and notes must be rated by any two of Moody's, S&P or Fitch, in one of their three highest rating categories and, if rated by only one such rating organization, in one of its two highest rating categories. A security without its own rating will be considered to be rated if its issuer's comparable securities are rated.

VII. ADDITIONAL RULES

- A. A "domestic bank" means a member bank of the Federal Reserve System or a commercial bank that is not a member of the Federal Reserve System, which is licensed by a state government of the federal government. A "foreign bank" is any bank that is not a domestic bank.
- B. "Government Securities" shall mean:
1. direct U.S. Treasury obligations
 2. obligations of the Federal Farm Credit Banks
 3. obligations of the Federal Home Loan Bank and its district banks
 4. obligations of the Federal Home Loan Mortgage Corporation, including participation certificates
 5. obligations guaranteed by the Government National Mortgage Association
 6. obligations of the Federal National Mortgage Association
 7. any other obligations which are guaranteed as to principal and interest by the full faith and credit of the U.S. Government or are obligations of U.S. Government agencies or instrumentalities that are rated in the highest category by an NRSRO.

APPROVED BY: _____

DATE APPROVED: _____

**INVESTMENT POLICY
FLORIDA STATE TREASURY
INTERMEDIATE CORE PORTFOLIO**

Investment Objective

The return objective for externally managed intermediate core portfolios is to exceed the total return (net of fees) achieved by an index of fixed-income securities as defined by the Lehman Brothers Aggregate Bond Index (Index) and to perform well when compared to other program managers.

Investment Strategy

Strategy will focus on securities that are broadly diversified across market sectors and maturities in keeping with the following guidelines. The Florida Treasury will hire fixed-income portfolio managers with different specialties to actively manage funds.

Portfolio Duration

The average portfolio duration must be six years or less , unless otherwise authorized by the Chief Financial Officer. The manager is free to make active judgments on portfolio duration within these guidelines. The mix of securities used to achieve the portfolio duration is at the discretion of the manager. The weighting of securities should reflect the manager's view of relative value among coupon and maturity sectors.

Permitted Securities

- I. Allowable securities per section 17.57(2) , Florida Statutes.
 - A. All securities purchased will be consistent with the guidelines established by section 17.57(2) , Florida Statutes (copy attached) and the limitations established by Treasury staff in the Investment Portfolio Guidelines. Only securities which are specifically listed as authorized may be purchased.
- II. Investment Portfolio Guidelines
 - A. U.S. Government and Agency Bonds
 - 1. As permitted by Florida Statutes

B. Municipal Securities

1. Section 17.57(2) , Florida Statutes, permits the use of obligations of state and local governments rated by at least two nationally recognized rating services in any of the four highest classifications (BBB-/Baa3 or greater). If an obligation is rated by only one nationally recognized rating service, then the obligation must be rated in the two highest classifications (AA-/Aa3 or greater).

C. Corporate Securities

1. Section 17.57(2) , Florida Statutes, permits the use of corporate obligations or corporate master notes of any corporation within the United States if the long-term obligations are rated by at least two nationally recognized rating services in any of the four highest classifications (BBB-/Baa3 or greater). If an obligation is rated by only one nationally recognized rating service, then the obligation must be rated in the two highest classifications (AA-/Aa3 or greater).
2. Corporation within the United States means that the entity issuing the debt must be incorporated within the United States.
3. Section 17.57(2) , Florida Statutes, permits the use of foreign bonds denominated in United States dollars and registered with the Securities and Exchange Commission for sale in the United States, if the long-term obligations are rated by at least two nationally recognized rating services in any of the four highest classifications (BBB-/Baa3 or greater). If an obligation is rated by only one nationally recognized rating service, then the obligation must be rated in the two highest classifications (AA-/Aa3 or greater).
4. Nationally recognized rating agency shall mean the following: Standard & Poor's, Moody's and Fitch.
5. The securities of any, one corporate issuer shall not comprise more than five percent of the account's market value.
6. Convertible securities are not permitted.
7. Commercial paper or other money market securities issued by any corporation domiciled within the U.S. shall be rated in the highest classification (A1/P1) by at least one nationally recognized rating agency.

D. Asset-Backed Securities

1. Asset-Backed Securities are defined as obligations of U.S. issuers backed by the monthly cash payments associated with consumer and business receivables. Managers may purchase asset-backed securities rated in the highest rating classification (AAA/Aaa or greater) by at least one nationally recognized rating agency.

E. Mortgage-Backed Securities

1. Mortgage-Backed Securities are defined as securities that directly or indirectly represent a participation in, or are collateralized by and payable from, mortgage loans secured by real property. Mortgage-Backed Securities shall include adjustable rate mortgage securities, fixed rate mortgage securities, and mortgage products such as Collateralized Mortgage Obligations (CMOs), Real Estate Mortgage Investment Conduit (REMICs) and stripped mortgage securities.
2. Managers may purchase the following types of Mortgage-Backed Securities:
 - a) Mortgage-Backed Securities issued or guaranteed by the U.S. Government or one of its agencies.
 - b) Mortgage-Backed Securities issued by private issuers that represent an interest in or are collateralized by Mortgage-Backed Securities issued or guaranteed by the U.S. Government or one of its agencies. Private issuers must be rated in the highest rating classification (AAA/Aaa or greater) by at least one nationally recognized rating agency.
 - c) Mortgage-Backed Securities issued by private issuers that represent an interest in or are collateralized by whole mortgage loans. Private issuers must be rated in the highest rating classification (AAA/Aaa or greater) by at least one nationally recognized rating agency.

F. Restricted Securities

1. For purposes of this section restricted securities shall include, but not be limited to, structured notes and all classes or tranches of CMOs, REMICs and stripped mortgage-backed securities that fail the FFIEC tests detailed in Section II. (F)(3)(b).

2. Structured notes are interest-earning securities issued by corporations or government agencies whose coupon and/or principal payment is linked in various ways to the behavior of a security, price, or index not directly related to the credit of the issuer.
 - a) Any structured note purchased by an outside investment manager on behalf of the Florida Treasury must be designed as to ensure that principal payment in full is guaranteed at maturity.
 - b) Structured notes issued by corporations must comply with the guidelines established for corporate securities.
 - c) Structured notes are limited to those securities which are based on a formula or structure that is consistent with the provisions of s. 17.57 F.S., and these investment guidelines (i.e., securities linked to equities, commodities, foreign interest rates, or lower grade bond yields would not be permitted as equities, commodities, foreign bonds and bonds rated lower than BBB-/Baa3 are not permitted investments).
3. Mortgage-backed securities shall include, but not be limited to, all classes or tranches of CMOs, REMICs and stripped mortgage-backed securities. Managers shall segregate mortgage-backed holdings into two categories: unrestricted and restricted.
 - a) Unrestricted mortgage-backed securities are defined as mortgage products that pass the Federal Financial Institutions Examination Council's (FFIEC) tests for determining "high-risk" mortgage securities.
 - b) Restricted mortgage-backed securities are defined as any mortgage products that at the time of purchase, or subsequent to purchase, do not pass the FFIEC tests. The FFIEC tests are:
 - i. Average Life Test. The expected average life must be less than or equal to 10 years.
 - ii. Average Life Sensitivity Test. The expected average life of the security cannot be expected to extend by more than four years or shorten by more than six years for immediate shifts in the Treasury

yield curve of +/-300 basis points from its current level.

- iii. Price Sensitivity Test. The estimated price of the security cannot change by more than 17 percent for immediate Treasury curve shifts of 300 basis points. Price changes are inclusive of the bid/ask spread and securities are repriced using a constant spread to the Treasury curve.
 - c) In applying any of the above tests, the prepayment assumptions used should be based on the median of dealer prepayment assumptions. Mortgage-backed securities collateralized by whole loans should use the median of dealer prepayment assumptions for comparable coupon FNMA mortgage-backed securities. Floating-rate CMOs are exempt from tests "1" and "2" if they are not currently at their cap and their rate resets at least annually (including the next reset). Mortgage pass through securities are not subject to the test.
4. The sum of structured notes and restricted mortgage-backed securities may not comprise more than 10 percent of the investment account market value. (Managers may request written approval to invest up to 20% of the investment account market value in restricted mortgage-backed securities and the Chief Financial Officer may approve such a request if sufficient justification is presented.)
- a) A mortgage-backed product that was considered an unrestricted mortgage-backed security when purchased may later fall into the restricted category. If this occurs the security will be considered a restricted security for determining manager compliance with this guideline.
 - b) No more than 5 percent of a manager's portfolio shall be invested in interest-only strips (IOs), inverse interest-only strips (inverse IOs,) and IOettes (interest-only securities which contain a small portion of principal payment along with the interest distribution) or other notional securities. Manager positions in such securities count towards the 10% limit for restricted securities.
5. Managers holding restricted securities shall report monthly their positions in such securities to the program trustee on the attached form.

G. Options

1. Managers may purchase put and call options on any security which is permitted in the portfolio. Futures, options on futures, swaps and other derivative contracts are not permitted.
2. Options may also be written if they are fully covered. Call options are considered covered if the manager owns the underlying security. Put options are considered covered if cash equivalent assets in an amount equal to the exercise cost are maintained in a segregated account.
3. The aggregate value of each manager's option positions shall not exceed 5% of the portfolio's value. The aggregate value of securities underlying written options shall not exceed 35% of the portfolio's value.

H. Basket Clause

1. Section 17.57(2)(v) , Florida Statutes, permits the use of securities not otherwise authorized by section 17.57 , Florida Statutes, if such securities are approved for Treasury use by the Chief Financial Officer. Not more than 3% of the funds under the control of the Chief Financial Officer shall be invested in securities approved for use under the "Basket Clause".
2. The following securities have been approved for purchase under the Basket Clause:
 - a) Yankee Certificates of Deposits (Yankee CDs) – Negotiable interest-bearing time deposits in U.S. branches of major foreign banks.
 - b) Euro-dollar Certificates of Deposits (Euro CDs) – Negotiable interest-bearing U.S. dollar denominated time deposits in foreign branches of U.S. banks and in foreign banks located offshore.
 - c) U.S. dollar denominated Canada Bills – Unsecured promissory notes denominated in U.S. dollars. These are unconditional obligations of Canada rated AAA/Aaa
 - d) Bank Notes – Senior, unsecured promissory notes issued in the United States on either an underwritten or continuously offered basis by domestic commercial banks.

3. The total market value of securities purchased by managers under the basket clause shall not comprise more than three percent of the account.
4. Managers shall notify Treasury staff and the Program's trustee in advance of purchasing securities that are approved under the basket clause.

Portfolio Leverage

Portfolio leverage shall be limited to 10% of the unleveraged portfolio market value, unless otherwise approved by the Chief Financial Officer. Portfolio leverage will be defined as increasing investment risk by creating liabilities that cannot be funded by cash or cash equivalents currently held in the portfolio.

Securities Lending

Securities lending will be performed for the Chief Financial Officer's externally managed portfolios under an approved securities lending agreement. Net lending income will be added to the portfolio manager's account from which securities were loaned.

Manager Reviews

Managers will be evaluated semiannually as a means of monitoring their contribution toward achieving the Program's objectives. The semiannual evaluations will include reviews of performance, portfolio characteristics, investment strategies and manager's ability to meet monthly reporting time frames. Treasury staff will also conduct monthly and quarterly reviews to determine manager compliance with the investment portfolio guidelines.

Investment Policy Review

This policy will be reviewed annually to evaluate the continued appropriateness of its stated objectives and guidelines. Changes will be made in response to the Treasury's liquidity needs, investment authority (section 17.57(2) , Florida Statutes) and operational conditions.

APPROVED BY: _____

DATE APPROVED: _____